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FOREIGN TRADING ZONES IN OUR SEAPORTS

(Free Zones ; Free Ports)

A foreign trading zone is a section of a seaport established and equipped to facilitate the transshipment and reëxport trade. The operation of customs regulations and the supervision of customs officials, in our ports as at present constituted, hinders the free movement of goods simply transhipped at the port on their way from one foreign country to another. Still more do these factors hinder the repacking, reconditioning and mixing operations involved in the reëxportation of goods that once enter our warehouses.

The foreign trading zone is a part of the port surrounded by a customs barrier. In this section are piers and warehouses. Here, without customs supervision, ships can dock, discharge, load; and goods be transhipped or put into store, rehandled, and later exported. Only when the merchandise leaves the zone for the American interior, is it inspected and its duty assessed. These piers and warehouses are as little concern to the customs as if they were in Nassau. The zone is treated as it if were foreign territory. In it the freedom from customs supervision hastens the turn-around of ships, stimulates the transshipment and reëxport business, provides the basis for the development of an international consignment market as at London, increases the volume of the ocean-borne cargo to and from the port, and so improves its steamship services. The foreign trading zone is a necessary tool of the seaport in a protectionistic country if it desires to act as middleman handling traffic moving between foreign lands.

The advocacy of foreign trading zones in our country is ten years old. It started with the "discovery" of the Hamburg Free Port, which had been in operation thirty years. Free ports were demanded here. The movement found opposition from the protectionists, who interpreted the name free ports to mean the opening of entire ports like New York to the unrestricted entrance of foreign goods. The advocates changed the name to free zones, indicating that only part of the port would be thus privileged. But free zones were still accused of being related to free trade. So the name free was dropped entirely and today the name is foreign trading zone. The term free zone is less unhandy and will be used herein.

Most of what is said and written of free zones is based upon the operation of the Hamburg Free Zone before the war. The institution was invented in 1882; it arose as the solution of a crisis which in that year came upon the city-state of Hamburg.

Although it had become a member of the German Empire, formed ten years earlier, Hamburg had never entered the German Customs

Union. Hamburg's trade with Germany was no larger than its trade with the Baltic, a business that had its roots several centuries back. If Hamburg entered the German Customs Union, which in 1879 adopted a high protective tariff, all goods landed at the port would then be subject to the payment of duties under the German tariff. No system of bonded warehouses or refunds of duties paid was deemed adequate to remove the handicaps which this customs procedure would place upon the transshipment and reexport trade with the Baltic, precariously developed in competition with London. That is why Hamburg remained aloof from the German Customs Union.

Bismarck wanted Hamburg in the Customs Union and he finally had his way. But it was not until Hamburg had developed a scheme for retaining the same advantages for her commerce and her transshipment that she had enjoyed before 1882. That scheme was the free zone. Bismarck allowed Hamburg to reconstruct her port as a free zone, and the Empire contributed forty million marks to the reconstruction. When the free zone was completed, it was the Port of Hamburg, comprising over 1200 acres of land and water with a complete equipment of piers, sheds, cranes, warehouses, basins, railroad tracks and yards, roadways and manufacturing sites. The entire district was surrounded by customs barriers. On the land, this barrier consisted of a stockade with openings for railroad tracks and roadways, guarded by customs officials. On the water, the barrier was a floating palisade with openings through which water-carriers might pass, likewise guarded by the customs. Nearly all of the free zone was on the left bank of the Elbe. The city of Hamburg itself was on the right bank and hence in the German Customs Union.

The German customs officials had no more to say about what went on in the Hamburg Free Zone than they had to say about what went on in Long Island. In the free zone goods could be, with complete freedom, transhipped from one vessel to another for further carriage—all Hamburg lines found it to their advantage to be in the free zone. Or merchandise could be mixed, packed, cleaned, manipulated, and branded. It could be held in warehouse subject to the demands of markets at home or abroad. Even manufacturing in the free zone was permitted, though this never attained a large development save in shipbuilding and ship-supply industries such as biscuit factories. The point is that all these operations went on innocent of any customs interference, supervision, or regulation.

When dutiable goods that had been landed in the free zone to be stored, handled, or manufactured were trucked across the river to Hamburg or forwarded inland by rail or river barge, they were assessed the standard German customs duties, whether they were raw ma-

terials or finished products. Under the operation of the free zone the Empire lost nothing in the collection of revenue. Duties were collected as soon as any goods were determined for German consumption and forwarded. But the process of assessing this revenue was concentrated upon the few points of egress of the free zone, not dispersed over all the piers in the port, as is the case in this country, where customs officials descend upon every ship that enters, their meticulous procedure bringing expense and delay upon the discharging of the ship and the removal of its cargo from the pier.

The British ports have not needed free zones because Great Britain has been a free trade country. No device was required to eliminate harassing British customs regulations. The free zone is not necessary for Great Britain. It was designed to enable a port in protectionistic Germany to compete on an equal footing with British ports in the transshipment and reexportation trade.

During the European war there was much speculation regarding an increase of our proportion of the world's trade after the conflict. There was also much talk of New York replacing London as the financial center of the world. This involves replacing her as international middleman and the world's consignment market for raw materials. Merchants at once explained that our customs procedure interfered with any such development here. Investigations showed how Hamburg by means of the free zone had reconciled a high protective tariff with a facility equal to England's in the development of a consignment market and reexport trade.

In 1917 and 1918 the United States Tariff Commission held hearings throughout the country on the subject of free zones and recommended to Congress that it pass permissive legislation authorizing the creation of a free zone in each port of entry. Both Senate and House committees have held hearings on the subject, and in both branches of Congress there have been bills providing for such permissive legislation at every session since 1918.

There is no subject more earnestly and constantly discussed than the problem of increasing the volume of our oversea trade and supplying larger cargoes to the steamship lines originated by our new merchant marine. The free zone project is an attempt to increase our oversea trading in a direction in which it has been particularly deficient. It is interesting to examine just what a free zone would do for an American port, considering what free zones have done for exports elsewhere, notably in Hamburg and Copenhagen.

A free zone is usually characterized as a facility designed to aid the reexport trade. The primary, and perhaps most important, of the benefits which it confers upon a port is little mentioned in the Ameri-

can discussions of the subject. First of all, the freedom from customs supervision in a free zone hastens the unloading of ships and hence their turn-around.

Customs regulations prescribe in minute detail the procedure to be followed by vessels entering or clearing at our ports. Penalties for failure to observe this procedure often fall heavily upon tramp captains. Captains and agents of regular lines frequenting a port can reduce the initial delay to a few hours. A separate set of customs inspectors must be endured by each vessel. Only by taking out a bond and by paying double compensation for the overtime of the customs employees, is it possible to unload at night, or on Sundays and holidays. And this permission to unload over hours, is given only to vessels that have been designated as common carriers by the Secretary of the Treasury.

When dutiable merchandise has left the ship, it cannot be removed from the pier forthwith to make space for other cargo. It cannot be removed until it has been weighed, sampled, or gauged by the customs officials and until they have given permits for its removal. The congestion thus caused slows up the discharge of the steamer. The Tariff Commission heard much testimony of the handicap which the customs regulations place upon the economical use of the steamship piers.

Contrast this procedure with what would happen to a ship in a free zone of an American port. The pilot would bring the vessel from the open sea to her berth at the free zone. Once thus berthed, the vessel would discharge by day or night, overside or on the pier, and there would be no limitation upon her hours of discharge, whether she were tramp or common carrier. Dutiable goods could discharge upon trailers and these be moved directly to the supporting warehouses back of the pier. The pier's floor could be cleared as rapidly as the ship discharged. There would be an increase in the handling capacity of these berths compared with those outside the free zone. The turn-around of every ship there would be expedited. On the average, 60 per cent of the operating cost of voyage lies in the terminal expenses. Reduce these largely by giving the ships better service in the free zone, and few lines could afford not to berth there, other things being equal.

Another element that would make the free zone a desirable berthing place is that its facilities would be modern, in many cases a newly constructed port unit. In contradistinction to the old parts of the port, the piers would be of size adequate to take the large cargoes of modern liners and would all be served by a belt line connecting with all rail-carriers of the port. There would be modern freight-handling machinery to hasten the transfer between pier, shed, and vessel. There would be adequate supporting warehouses adjacent to the piers. This

latter facility is one whose absence is almost unexplainable in many American ports. At Baltimore and Philadelphia there are no warehouses within a long distance of the oversea piers. There are none in New York, excepting at the great private ocean terminals at Long Island and Staten Island. So the free zone, furnishing the excuse for the construction of modern terminal units, will further cheapen and hasten the turn-around of vessels in the port.

There has long been a superstition that our bonded warehouse system has sufficiently served our needs in the reëxport trade. A merchant can place dutiable goods in such a warehouse, give the government a bond equal to double the duties assessable thereon, and pay duty on such goods only when he withdraws them from bond. If he sells them abroad, he can load them on a steamer and escape the payment of any duty whatever.

There are many things which a merchant would like to do, forbidden him under bonded warehouse regulations. For example, he is forbidden to alter the original package in which the goods were placed in bond. At the hearings before the Tariff Commission, a New York importer of Swiss laces told his experience. He imported his goods in heavy cases and had them in bond in New York. Making sales to South America, he desired to repack the goods in lighter covering, since they were to pass customs duties that were levied on the gross weight of the importation, package as well as goods. As this repacking was forbidden in bonded warehouses in New York, he was obliged to forward his cases to a British West Indies port, where the repacking was performed.

Before the war a large volume of Argentine tobacco went to the Hamburg Free Zone and was there sorted and repacked and reshipped back to South America, to United States and all parts of the world. It was impossible to get that business for New York because of the operation of the bonded warehouse system. Tobacco as it comes from the Argentine is badly done up; it must be cleaned and repacked or it will rot. Our regulations forbid it being repacked in bond. If it is cleared—that is, if the customs duties are paid on it—it can be cleaned, repacked and exported, and a drawback collected from the government equal to 99 per cent of the duty paid. But the duty is paid on the gross weight of the tobacco brought in. The drawback is collected on the net weight sent out, the spoiled tobacco having been in the meantime thrown away, unfit to export.

In the British ports, and in Hamburg before the war, there has always been a heavy reëxport trade based upon such operations as the mixing of teas and coffees, the cutting of wines, the packing and bottling of foreign goods under British and German brands, and their

subsequent reëxportation. The bonded warehouse system makes no provision for such operations. At the hearings regarding the free zone, American merchants testified as to various uses they would make of it, impossible now. It would be possible there to clean and improve grades of corn and coffee too low to be permitted importation into the country at the present time. They would not then come into the country; they are not in this country until they cross the customs line. The lowest grades could be reëxported to Central American countries whose standards are less exacting than ours. Soya beans, pepper, matches, and gum from the Far East could likewise be graded and sent into the American interior or reëxported according to the conditions of the market. Rice could be cleaned, conditioned, and similarly disposed of.

Somewhat different from the reëxportation trade is the transshipment trade: merchandise that does not pass through warehouses at all but simply moves in transfer from one ocean carrier to another at the port. Such transfer movements within a free zone would be conducted with greater freedom than attends these movements by means of bonded car, truck, or lighter within an American port today.

Beyond doubt London's rise as the great consignment market for the raw materials of the world was due largely to the fact that Great Britain was the chief manufacturing nation and hence the chief market for such materials, and to the fact that London was a money market able to finance the holding of this merchandise. These vital factors in the location of the consignment market at London might not have prevailed if the goods thus consigned had faced the prospect of being locked up in bonded warehouses upon arrival, subject to inspection only at the pleasure of the customs guard and forbidden rehandling. A necessary element in a consignment market is that merchants and buyers, domestic and foreign, shall have free disposition over the merchandise therein. Free zones will create the basis for such a consignment market in this country.

The technique of the London consignment market is well known. Many raw products of the colonial and the less developed countries come upon the market during a harvest period of from one to three months. Their consumption is spread over the entire year. Somewhere they must be held during the period from production to consumption. British merchants, British financial power, British ship-owners, concentrated them at London, where they were graded and sold to all the world. The producer put his goods on board ship, cabled a London merchant or broker, drew on him for, say, 80 per cent of the current value of the merchandise, and received the balance upon sale. Thus there was concentrated in the warehouses of London a

large proportion of the world's supply of Argentine and Australian wool, Egyptian and Indian cotton, East Indian and Brazilian rubber, rice from Indo-China, tea from Ceylon and China; mahogany, ivory and palm oil from the West Coast of Africa.

Every interest in Great Britain profited from the concentration of raw materials at London. British brokers, dealers, and banks made money from this international trade that passed through their hands. The British manufacturer got his pick of materials. He bought by direct inspection, not by description or grade. He bought in small quantities; he had no necessity of carrying heavy stocks. He bought cheaper than his rivals abroad, for they paid his price plus the freight rate from England.

The British shipowners profited by carrying these products to England, and again carrying them from England when they had been bought at the auctions of the consignment market by purchasers from foreign lands. Great Britain enjoyed a better equipment of ocean services, because of its consignment market and its reëxport trade. More ships were required to bring the materials inbound to England than if they had been bringing only English supplies. More ships sailed outbound from England because the cargo that offered was not only England's products, but also these reëxports from other lands.

The volume of Great Britain's reëxports, before the war, averaged 20 per cent of her domestic exports. In 1913 her domestic exports were £525,254,000; reëxports were £109,567,000. That is, Great Britain as an international middleman contributed one fifth as much to the total volume of trade as did Great Britain as a producer. That proportion was maintained in 1919, but in 1920 the enormous spurt of British domestic exports set a pace too rapid for reëxports, whose proportion dropped from 1:5 to 1:6. In 1919 Great Britain's domestic exports amounted to £798,635,000. "Foreign and colonial" exports amounted to £164,749,000. In 1920 the domestic exports were £1,335,569,000; the reëxports, £222,405,000.

Great Britain's statistics of her exports to us show how largely her trade with us consists of reëxports from other lands. In 1919 (latest figures) she sent us £33,913,000 of domestic British products. Her exportation to us of "foreign and colonial" products amounted to £31,600,000. The leading items of these reëxports to us were rubber, £6,790,000; cotton, £5,906,000; hides and skins, £4,285,000; wool, £2,832,000. The few available 1920 figures show that Great Britain in that year sent us £15,640,000 of cotton, £6,310,000 of wool, £6,890,000 of rubber.

Our own figures of reëxportation seem rather insignificant in comparison. In the fiscal year 1914, our reëxports amounted to \$35,000-

000, out of a total export trade of \$2,365,000,000. The reexports were thus about 1.5 per cent of the total. In the calendar year 1919, our reexports had risen to \$170,000,000, which was slightly over 2 per cent of the total exports of \$7,920,000,000. In the calendar year 1920, our reexports of \$148,000,000, were well under 2 per cent of our total exports of \$8,229,000,000. All this time Great Britain's reexports have remained about 20 per cent of her domestic exports. No sign here that we are replacing her as the financial and commercial center of the world.

Our transshipment trade is included in the caption "in-transit and transshipment trade" in the government figures. If we subtract from the total of these figures the merchandise moving to or from Canada (in transit) the remainder is the true transshipment trade. Such subtraction decimates the figures. Our transshipment trade thus ascertained amounted to \$21,000,000 in 1914, \$44,000,000 in 1918, \$44,000,000 in 1919, and \$76,000,000 in 1920.

The question arises whether a reconsignment market could not develop in an American port without the creation of free zones. It could if the raw materials which are the subject of such a market were duty free. But many of the most important of these materials are subject to duty; among them wool, rice, hides and skins. Only the abolition of customs control, as in a free zone, can provide for these articles the basis of a consignment market in freedom in grading, cleaning, reconditioning, mixing, inspecting.

The opponents of free zones contend that the United States has not the strategic location of Hamburg or Copenhagen with respect to adjacent foreign countries. These ports lie across the through routes between oversea and lands on the Baltic or in the European interior. It is an act of stopping-in-transit for Hamburg to hold and distribute merchandise moving in this trade. For goods to be warehoused in American ports, and thence reexported, would mean an unnatural diversion of through routes. But if there is not a saving, a commercial advantage, in the use of American free zones, they will not be used. Our unstrategic location with respect to the reexport trade is more apparent than real. A glance at the Great Circle routes used by ships shows that our North Atlantic ports have, with respect to the trade between Europe and the West Indies and the Caribbean, a position comparable with that of Hamburg with respect to the trade between the Baltic and oversea. We too have adjacent countries on the same continent whose trade we should like to handle: Canada and Mexico.

It is contended that free zones will facilitate the entrance of European manufactures into our market by providing them with convenient

duty-free storage, whence they can promptly be forwarded into our interior or sent to ruin our trade with adjacent countries. Free zones will promote commerce at the expense of manufacturing. There is truth in this argument. Yet Europe will export to us and to nearby American countries, free zones or no free zones. That is, Europe will thus export or she will die. If her exports to other American countries can be intercepted in our free zones, our merchants, bankers and shipowners can profit from the trade. In the reverse direction, the free zone will intercept raw materials and foodstuffs going to Europe. Europe's industrial recovery will require much American financial aid. It is not hard to imagine such aid in connection with the shipment of merchandise to the New York free zone, for storage and disposal as the market dictates.

Some free zone opponents take the position that free zones are not needed and would not be used; others hold that they would be used and would injure our export trade. Both contentions are probably wrong. Free zones would be used; they would not largely injure our export trade; rather they would aid in the creation of a new form of export trade, now lacking.

If Congress passes the permissive legislation, the realization of free zones need not await the construction of new port terminals. The Government Army War Bases in various Atlantic and Gulf ports, have been or are being turned over to public corporations for commercial use. Each of these bases is a self-contained unit of piers and warehouses. It need only be surrounded by a fence to become a free zone. Army bases ideally suitable for such use exist at Boston, New York, Philadelphia, Norfolk, Charleston and New Orleans. At some of these a free zone can go into operation within a few weeks after the bill becomes law.

The experiment is worth trying. The most recent bills in Congress authorize the Secretary of Commerce to grant to a public corporation in each port of entry the right, at its own expense, to establish a foreign trading zone, wherein merchandise may "be brought into a zone and there stored, exhibited, broken up, repacked, assembled, distributed, refined, cleaned, mixed with foreign or domestic merchandise or otherwise manipulated and reexported." The Secretary of the Treasury is to assign to the zone the necessary customs officials and guards. The established duties are to be collected on all merchandise brought inland from the zone. No persons are allowed to reside there except those officials whose resident presence is deemed necessary by the Secretary of Commerce. No retail trade is to be conducted within the zone. The privilege of manufacturing within the free zone, contained in the earlier bills, is omitted in this one. The advantage of the manu-

facturing privilege, of course, is that it enables a plant to work imported raw materials into a product for export without the difficulties and red tape that now beset manufacturers who pay duties on such imported raw materials and attempt to collect drawbacks upon exportation. However, few American manufacturers could afford to locate in the free zone. On all products seeking the American market they would, on passing the customs line, pay the high duty on finished products, while their rivals inland would pay the lower duty on imported raw materials.

In the fog of discussion as to means of improving our foreign trading position, the free zone looms up like a beacon.

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